

## How States Tax Business

Forty-four states tax corporate income.

- Thirty-one states impose a single (flat) tax-rate
- Flat-tax rates varies from a low of 4.0% (Kansas) to a high of 9.99% (Pennsylvania)
- Thirteen states have some form of graduated corporate income tax rates
- The number of brackets varies from as few as two tax brackets (Nebraska and Oregon) to as many as ten brackets (Alaska)

In addition to levying a corporate income tax, all states levy some type of additional business taxes (franchise, license, etc.)

- Twelve states that levy a corporate income tax generate at least twice as much revenue from these other taxes as they do from their corporate income taxes
- Twenty-two states generate an amount that's roughly the same as they collect in corporate income taxes
- Five states collect considerably more from their corporate income taxes than these other taxes

Six states do not have income-based taxes on corporations.

- Nevada does not tax corporate income
- Ohio eliminated its corporate income tax for all but a few corporations and replaced it with a gross receipts tax known as the Commercial Activities Tax (CAT). Financial institutions pay a franchise based on net worth
- South Dakota does not tax corporate income, although financial institutions pay a franchise tax
- Texas imposes a franchise tax (or margin tax) that's similar to a gross receipts tax
- Washington does not tax corporate income but levies a gross receipts tax
- Wyoming does not tax corporate income

# **RANGE OF STATE CORPORATE INCOME TAX RATES**

(For tax year 2010 -- as of January 1, 2010)

STATE	TAX RATE (percent)	TAX BRACKETS		NUMBER OF BRACKETS	TAX RATE (a) (percent) FINANCIAL INST.	FEDERAL INCOME TAX DEDUCTIBLE
		LOWEST	HIGHEST			
ALABAMA	6.5	---Flat Rate---		1	6.5	
ALASKA	1.0 - 9.4	10,000	90,000	10	1.0 - 9.4	
ARIZONA	6.968 (b)	---Flat Rate---		1	6.968 (b)	
ARKANSAS	1.0 - 6.5	3,000	100,000	6	1.0 - 6.5	
CALIFORNIA	8.84 (c)	---Flat Rate---		1	10.84 (c)	
COLORADO	4.63	---Flat Rate---		1	4.63	
CONNECTICUT	7.5 (d)	---Flat Rate---		1	7.5 (d)	
DELAWARE	8.7	---Flat Rate---		1	8.7-1.7 (e)	
FLORIDA	5.5 (f)	---Flat Rate---		1	5.5 (f)	
GEORGIA	6.0	---Flat Rate---		1	6.0	
HAWAII	4.4 - 6.4 (g)	25,000	100,000	3	7.92 (g)	
IDAHO	7.6 (h)	---Flat Rate---		1	7.6 (h)	
ILLINOIS	7.3 (i)	---Flat Rate---		1	7.3 (i)	
INDIANA	8.5	---Flat Rate---		1	8.5	
IOWA	6.0 - 12.0	25,000	250,000	4	5.0	* (k)
KANSAS	4.0 (l)	---Flat Rate---		1	2.25 (l)	
KENTUCKY	4.0 - 8.0	50,000	100,000	3	--- (a)	
LOUISIANA	4.0 - 8.0	25,000	200,000	5	--- (a)	
MAINE	3.5 - 8.93 (n)	25,000	250,000	4	1.0	
MARYLAND	8.25	---Flat Rate---		1	8.25	
MASSACHUSETTS	8.75 (o)	---Flat Rate---		1	10.0 (o)	
MICHIGAN	4.95 (p)	---Flat Rate---		1	--- (a)	
MINNESOTA	9.8 (q)	---Flat Rate---		1	9.8 (q)	
MISSISSIPPI	3.0 - 5.0	5,000	10,000	3	3.0 - 5.0	
MISSOURI	6.25	---Flat Rate---		1	7.0	* (k)
MONTANA	6.75 (r)	---Flat Rate---		1	6.75 (r)	
NEBRASKA	5.58 - 7.81	100,000		2	--- (a)	
NEW HAMPSHIRE	8.5 (s)	---Flat Rate---		1	8.5 (s)	
NEW JERSEY	9.0 (t)	---Flat Rate---		1	9.0 (t)	
NEW MEXICO	4.8 - 7.6	500,000	1 million	3	4.8 - 7.6	
NEW YORK	7.1 (u)	---Flat Rate---		1	7.1 (u)	
NORTH CAROLINA	6.9 (v)	---Flat Rate---		1	6.9 (v)	
NORTH DAKOTA	2.1-6.4	25,000	50,000	3	7 (b)	
OHIO	(w)			2	--- (w)	
OKLAHOMA	6.0	---Flat Rate---		1	6.0	
OREGON	6.6 - 7.9 (aa)	250,000		2	6.6 - 7.9 (aa)	
PENNSYLVANIA	9.99	---Flat Rate---		1	--- (a)	
RHODE ISLAND	9.0 (b)	---Flat Rate---		1	9.0 (x)	
SOUTH CAROLINA	5.0	---Flat Rate---		1	4.5 (y)	
SOUTH DAKOTA	---				6.0-0.25% (b)	
TENNESSEE	6.5	---Flat Rate---		1	6.5	
TEXAS	(z)				(z)	
UTAH	5.0 (b)	---Flat Rate---			5.0 (b)	
VERMONT (b)	6.0 - 8.5	10,000	250,000	3	--- (a)	
VIRGINIA	6.0	---Flat Rate---		1	6.0	
WEST VIRGINIA	8.5 (bb)	---Flat Rate---		1	8.5 (bb)	
WISCONSIN	7.9	---Flat Rate---		1	7.9	
DIST. OF COLUMBIA	9.975 (cc)	---Flat Rate---			9.975 (cc)	

## RANGE OF STATE CORPORATE INCOME TAX RATES (footnotes)

Source: Compiled by FTA from various sources

Note: Nevada, Washington, and Wyoming do not have state corporate income taxes.

(a) Rates listed include the corporate tax rate applied to financial institutions or excise taxes based on income. Some states have other taxes based upon the value of deposits or shares.

(b) Minimum tax is \$50 in Arizona, \$50 in North Dakota (banks), \$10 in Oregon, \$500 in Rhode Island, \$500 per location in South Dakota (banks), \$100 in Utah, \$250 in Vermont.

(c) Minimum tax, \$800. Banks and financial corporations, excepting financial S corporations, are subject to a 10.84% tax rate (the general corporation rate, plus 2%). A 3.5% tax rate applies to financial S corporations, and a 1.5% rate applies to all other S corporations. A 6.65% alternative minimum tax is imposed.

(d) Or 3.1 mills per dollar of capital stock and surplus (maximum tax \$1 million) or \$250. A 10% surcharge is imposed in tax years 2009 and 2010 for corporations with gross sales of \$100 million or more who are not paying the minimum tax.

(e) The marginal rate decreases over 4 brackets ranging from \$20 to \$650 million in taxable income. Building and loan associations are taxed at a flat 8.7%.

(f) Or 3.3% Alternative Minimum Tax. An exemption of \$5,000 is allowed.

(g) Capital gains are taxed at 4%. There is also an alternative tax of 0.5% of gross annual sales.

(h) Minimum tax is \$20. An additional tax of \$10 is imposed on each return. Taxpayers under 100,000 or less of gross sales may pay 1% on such sales.

(i) Includes a 2.5% personal property replacement tax.

(k) Fifty percent of the federal income tax is deductible.

(l) In addition to the 4% corporate tax income there is a 3.05% surtax on taxable income over \$50,000. The current surtax is reduced to 3.0% for tax year 2011. Certain financial institutions pay a privilege tax at a rate of 2.25% of net income, plus a surtax of 2.125% (2.25% for trust companies and savings and loan associations) with net income in excess of \$25,000.

(n) The state franchise tax on financial institutions is either (1) the sum of 1% of the Maine net income of the financial institution for the taxable year, plus 8¢ per \$1,000 of the institution's Maine assets as of the end of its taxable year, or (2) 39¢ per \$1,000 of the institution's Maine assets as of the end of its taxable year.

(o) The current business corporation (financial institution) tax rate is reduced to 8.25% (9.5%) in 2011, and 8.0% (9.0%) in 2012. Rate includes 14% surtax, as does the following: an additional tax of \$2.60 per \$1,000 on taxable tangible property (or net worth allocable to state, for intangible property corporations); minimum tax of \$456.

(p) Michigan Business Tax (MBT) imposed at rate of 4.95% and modified gross receipts tax imposed at rate of 0.8% on receipts of \$350,000 or more. Plus a 21.99% surcharge, capped at \$6 million per year.

(q) Plus a 5.8% tax on any Alternative Minimum Taxable Income over the base tax.

(r) A 7% tax on taxpayers using water's edge combination. Minimum tax is \$50. Taxpayers with \$100,000 or less gross sales within state may pay 0.5% on such sales.

(s) Plus a 0.75 percent tax on the enterprise base (total compensation, interest and dividends paid) for businesses with gross income over \$150,000 or base over \$75,000. Business profits tax is imposed on both corporations and unincorporated associations with gross income over \$50,000.

(t) Alternative minimum assessment if applicable or fixed dollar minimum tax based on gross receipts ranging from \$500 to \$2000. Small businesses with annual income under \$100,000 pay a tax equal to 7.5% of taxable income while businesses with income under \$50,000 pay a 6.5% tax on income. A 4% surtax also applies for tax periods ending before 7/1/10.

(u) Alternative minimum tax base of 1.5%; capital tax base of 0.15% per dollar of allocated capital (up to \$350,000 for qualified in-state manufacturers or \$10 million for other taxpayers). Small business taxpayers pay 4.35% to 7.1% depending. Fixed dollar minimum tax ranges from \$25 to \$5000 depending on receipts.

(v) For tax years 2009 and 2010, a 3% surcharge applies. Financial institutions are also subject to a tax equal to \$30 per one million in assets.

(w) Ohio no longer levies a tax based on income (except for a particular subset of corporations), but instead imposes a Commercial Activity Tax (CAT) equal to \$150 for gross receipts situated to Ohio of between \$150,000 and \$1 million, plus 0.26% of gross receipts over \$1 million. Banks continue to pay a franchise tax of 1.3% of net worth. For those few corporations for whom the franchise tax on net worth or net income still applies, a litter tax also applies.

(x) For banks, the alternative tax is \$2.50 per \$10,000 of capital stock (\$100 minimum).

(y) Savings and Loans are taxed at a 6% rate.

(z) Texas imposes a Franchise Tax, otherwise known as margin tax, imposed on entities with more than \$1,000,000 total revenues at rate of 1%, or 0.5% for entities primarily engaged in retail or wholesale trade, on lesser of 70% of total revenues or 100% of gross receipts after deductions for either compensation or cost of goods sold.

(aa) Taxpayers with \$100,000 or less in Oregon gross sales and no property in the state pay a tax equal to 0.25% of gross sales. The top rate is scheduled to fall to 7.6% in 2011.

(bb) Current rate is scheduled to for reduction, 7.75% after 2011, 7.0% after 2012, 6.5% after 2013.

(cc) Minimum tax is \$100. Includes surtax.

## **State Income Tax Treatment of Pension and Retirement Income**

(Based on TY2009 Tax Laws)

There are five broad types of pension and retirement income: (1) Social Security, (2) private, (3) state and local, (4) federal, and (5) military. Eight states (California, Minnesota, Nebraska, New Mexico, North Dakota, Rhode Island, Utah, and Vermont) fully tax all forms of pension income while four states (Mississippi, New Hampshire, Pennsylvania, and Tennessee) explicitly exempt all retirement and pension income. In addition, seven states (Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming) do not impose an income tax and therefore implicitly exempt pension and retirement income. The remaining 31 states exempt some pension income either by providing credits or exempting specific portions.

### **Social Security Benefits:**

- 29 states generally exempt social security income (including Michigan).
- Social security benefits are taxable to some degree in 14 states, eight of which follow federal treatment and impose income taxes on up to 85% of social security benefits.
- The remaining six states follow their own treatment.

### **Private Pension and Retirement Income:**

- Seven states (Arizona, Connecticut, Idaho, Kansas, Massachusetts, Virginia, and West Virginia) fully tax private pension income but provide preferential tax treatment for other forms.
- 19 states exempt pension and retirement income up to a specified dollar amount. These thresholds range from \$2,000 in Delaware to \$45,120 in Michigan. Kentucky has the next highest threshold at \$41,000 followed by Georgia at \$35,000.
- Ohio provides a credit up to \$200; Oregon provides a credit up to 9%.
- Alabama exempts private retirement income from defined benefit plans; Hawaii exempts employer funded retirement income; Illinois exempts retirement income from qualified employee benefit plans or a self-employment retirement plan.

### **State and Local Retirement Income:**

- Only two states (Connecticut and Virginia) fully tax public pension income while exempting pension income from other sources (federal or military).
- Eleven states (Alabama, Hawaii, Illinois, Louisiana, Massachusetts, Michigan, Mississippi, New Hampshire, North Carolina, Pennsylvania, and Tennessee) exempt most or all public pension income.
- Fifteen states provide the same exemptions or credits for public pension income as for private pension income.
- Two states that fully tax private pension income exempt some public retirement income up to a specified amount. There are Idaho (\$27,876/\$41,814) and West Virginia (\$2,000/\$4,000).

### **Federal Retirement Income:**

- Almost all states provide the same treatment of Federal retirement income as public pension income.
- Indiana provides a slightly higher dollar amount that can be excluded while Kansas fully exempts federal pension income but only partially exempts public pensions.

### **Military Retirement Income**

- Most states treat military retirement income in the same manner as federal retirement income.
- Connecticut exempts 50% of military retirement income; Indiana exempts the first \$5,000; Ohio and Wisconsin exempt it completely; West Virginia exempts the first \$22,000.

**Table 2: State Tax Exclusion for Pension/Retirement Income (Tax Year 2009)**

State	Private	State & Local	Federal Civilian	Military
Alabama	State Calculation	Most exempt	Exempt	Exempt
Arizona	None	\$2,500	\$2,500	\$2,500
Arkansas	\$6,000	\$6,000	\$6,000	\$6,000
California	None	None	None	None
Colorado	\$20,000/\$24,000	\$20,000/\$24,000	\$20,000/\$24,000	\$20,000/\$24,000
Connecticut	None	None	None	50%
Delaware	\$2,000/\$12,500	\$2,000/\$12,500	\$2,000/\$12,500	\$2,000/\$12,500
District of Columbia	None	\$3,000	\$3,000	\$3,000
Georgia	\$35,000	\$35,000	\$35,000	\$35,000
Hawaii	State Calculation	Exempt	Exempt	Exempt
Idaho	None	\$27,876/\$41,814 <sup>a</sup>	\$27,876/\$41,814	\$27,876/\$41,814
Illinois	State Calculation	Exempt	Exempt	Exempt
Indiana	None/\$5,200	None/\$5,200	\$2,000/\$7,200	\$5,000
Iowa	\$6,000	\$6,000	\$6,000	\$6,000
Kansas	None	Some exempt	Exempt	Exempt
Kentucky	\$41,110	State Calculation	State Calculation	State Calculation
Louisiana	\$6,000	\$6,000/Exempt	Exempt	Exempt
Maine	\$6,000	\$6,000	\$6,000	\$6,000
Maryland	\$24,500	\$24,500 <sup>b</sup>	\$24,500	\$24,500
Massachusetts	None	Exempt <sup>c</sup>	Exempt <sup>c</sup>	Exempt
Michigan	\$45,120	Exempt	Exempt	Exempt
Minnesota	None	None	None	None
Mississippi	Exempt	Exempt	Exempt	Exempt
Missouri	\$6,000	\$6,000	\$6,000	\$6,000
Montana	\$3,600	\$3,600	\$3,600	\$3,600
Nebraska	None	None	None	None
New Hampshire	Exempt	Exempt	Exempt	Exempt
New Jersey	\$15,000	\$15,000	\$15,000	Exempt
New Mexico	None	None	None	None
New York	\$20,000	Exempt	Exempt	Exempt
North Carolina	\$2,000	\$4,000/Exempt	\$4,000/Exempt	\$4,000/Exempt
North Dakota	None	None	None	None
Ohio	\$200 credit	\$200 credit	\$200 credit	Exempt
Oklahoma	\$10,000	\$10,000	\$10,000	\$10,000
Oregon	9% credit	9% credit	9% credit/pre-1991 exempt	9% credit pre-1991 exempt
Pennsylvania	Exempt	Exempt	Exempt	Exempt
Rhode Island	None	None	None	None
South Carolina	\$3,000/\$10,000	\$3,000/\$10,000	\$3,000/\$10,000	\$3,000/\$10,000
Tennessee	Exempt	Exempt	Exempt	Exempt
Utah	None	None	None	None
Vermont	None	None	None	None
Virginia	None	None	None	Most taxable
West Virginia	None	\$2,000	\$2,000	\$22,000
Wisconsin	State Calculation	State Calculation <sup>d</sup>	State Calculation <sup>d</sup>	Exempt

<sup>a</sup> Applies only in the case of certain public safety officials.

<sup>b</sup> All pension benefits to police and firefighters (or their beneficiaries) as a result of job related injuries (or death) are exempt.

<sup>c</sup> Only contributory pension income is exempt.

<sup>d</sup> Payments from certain systems are exempt if employed before 1964.